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Startup Company Formation and Management

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Summary

- Startups are often built with a small team of talented and highly motivated individuals who are passionate about the company.
- The environment of a startup is often demanding, with time-sensitive projects and limited resources.
- The three common types of business entities for a startup are an LLC, an S corp, and a C corp, and each offers its own advantages based on the startup's trajectory and goals for growth.
- Delaware's corporate laws and statutes are pro-business, and many companies choose to incorporate in Delaware.
- State law requires that corporations hold shareholder and board of directors meetings to vote on crucial company decisions and document them officially in meeting minutes.
- Seeking counsel from a tax advisor and a legal advisor early on can potentially contribute to a startup's financial prospects both in the short and the long term.

Startup Company Formation and Management

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Topic Relevance by Timeline

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Introduction

Forming a startup requires having realistic expectations for the company and the employees. Startups often begin with limited resources, and so each task completed and decision executed should be carefully planned out. The purpose of this chapter is to review key decisions and steps in the formation process of a startup. For example, one of the important decisions to make with a startup is the type of corporation to file for and which state to file in. We then move on to describe

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key meetings and documents necessary for startup operations and discuss resources that can provide advice and counsel.

Expectations for a Startup

The environment for a startup is often demanding and challenging. Projects are time-sensitive and there are limited resources to operate. With a small team, each team member will often be given independence to complete tasks. This is generally a rewarding experience because there is an opportunity to learn new skills and lead projects. Working in small teams can contribute to a close-knit environment that is dedicated and focused on completing the task and meeting deadlines (see the chapter “Building a Successful Startup Team”).

Most startups offer flexible hours and schedules, but team members are expected to meet deadlines for time-sensitive projects. There is often less structure, and much of the work is driven by self-motivation and initiative to meet business milestones. Initial company seed funding is often unpredictable and typically can occur in six-month to two-year periods, with the subsequent period dependent upon obtaining additional financial support. Often, each expense is tracked carefully to maintain working cash flow. Effective management of capital is a sign of maturity for a startup. Compensation for employees often takes the form of salary and benefits that are between the range of academic and industry setting. Additionally, employees in startups are often granted equity to tie in their performance to the growth of the company.

Types of Startup Companies

Registering a startup as a corporation lends more credibility to the business and provides more legal protection. A limited liability company (LLC) is a very common corporate structure for a startup because of the benefits and ease of registering. The benefits of registering a young company as an LLC include avoiding double taxation, reducing restrictions for maintenance and making changes to the company, protections on personal assets from lawsuits, and a lowered cost to file. Startups may often begin as an LLC and, after expansion and growth, convert to a C or S corporation to attract investors with equity/stock options. Alternatively, startups that do not plan to issue company stock or raise funding may choose to remain as an LLC (Boitnott).

S corporations are often appropriate for startups that have one class of stock and fewer than 100 shareholders. The shareholders are specified as individuals, certain trusts, and estates, with corporations and partnerships excluded. In addition to limited liability, the main benefit, compared to a C corporation, is pass-through taxation where shareholders file taxes annually and report their losses and profits individually (“Business Structures”). If the company plans to remain a small business, then the S corp model may work best for its needs. Unlike with an LLC and a C corporation, registering for an S corporation is for U.S. citizens and legal residents only (“What Is an LLC? Form a Limited Liability Company”).

C corporations are one of the most common corporation structures in the U.S. and allow for high growth potential. The limitations in the number of shareholders and sales of stock in an S corporation do not apply to C corporations. A C corporation can attract major investors like venture capitalists with unlimited sale of stocks and high growth potential. When the startup reaches more than 500 shareholders and/or more than $10 million in assets, it is required to register with the Securities and Exchange Commission (SEC). One of the major disadvantages is double taxation, which occurs at the company level as well as individually with shareholders' dividends. However, most startups tend to reinvest the dividends, and so this second taxation does not apply often. Taxes are filed quarterly.

The public benefit corporation is an option if the startup's purpose contributes to a general public benefit. The startup can build or invest in a company that operates in a socially and/or environmentally conscious manner. Registering as a benefit corporation requires two-thirds of the shareholders' votes and can be done when filing for articles of incorporation or making an amendment to change to this status. The application is filed with the Bureau of Corporations and Charitable Organizations. The requirements of a public benefit corporation include filing an annual benefits report to the State Department, mainly detailing the general public benefit created during the year and the compensation of each company director ("Pennsylvania Benefit Corporation").

When the startup is considering which state to incorporate in, Delaware stands out as having advantages that have favored businesses since the early 1900s. More than half of Fortune 500 companies are incorporated in Delaware. One of the main reasons is the dynamic design of Delaware's General Corporation Law, which has regularly updated provisions to ensure flexibility in corporate structure; this is upheld in their Court of Chancery, a court established just for corporate cases. Furthermore, corporations that do not conduct business within Delaware are not liable for corporate taxes. In Delaware, a quorum for shareholder meetings is met when one-third of the voting shareholders are present (Black).

Understanding Goals and Resources

Creating a startup requires keeping the company goals in mind when thinking ahead and planning for sequential tasks to complete. One of the first steps in building a solid foundation for the startup is to establish the roles, decision-makers, rules for leaving the company, and personal contributions (such as funds and time commitment) of each founder and senior management. This is specified clearly in a legal document, the founders' agreement, which is typically drawn up prior to incorporating the company. To prepare a founders' agreement, it can be helpful to have a clear understanding of each founder's perspective. A useful tool in this regard is an agreement questionnaire; a detailed example of one, provided courtesy of Fox Rothschild LLP, is included at the end of this chapter.

Table 1. Comparison of Types of Corporations: C corp, S corp, and LLC.

	C Corp	S Corp	LLC
Limited Liability	YES	YES	YES
Unlimited Owners/Shareholders	YES	NO	YES
Owners must be U.S. citizens or residents	NO	YES	NO
Startup can be owned by another business	YES	NO	YES
Can issue equity in the form of stocks	YES	YES	NO
Owners can report business profit and loss on their personal tax returns	NO	YES	YES
Owners can split profit and loss with the business for a lower overall tax rate	YES	NO	NO
Annual meetings or record meeting minutes	YES	YES	NO

Company Governance

Proper company governance is the foundation for the success of a startup and is highly influenced by the stakeholders' interests. Typically, the stakeholders in a company include the shareholders, employees, consumers, suppliers, government, and community. A company runs most smoothly when there is a balance of the stakeholders' interests. S corps and C corps are required to hold annual or "regular" shareholder meetings to discuss and vote on agenda items. Having an odd number of board members is an advantage to avoid ties when counting votes for a decision. Examples of common items on the agenda include adding/removing directors, mergers, sale of assets, and voting on shareholder initiatives. Board members can call for a special shareholders' meeting to discuss time-sensitive resolutions, such as for acquisitions and conversions.

A board of directors is established at the start of a company, as required by law. Typically, the board of directors consists of the founder(s) and the CEO of the startup, who make all key decisions regarding raising capital, potential acquisitions, staffing upper management, assessing risks, and making strategic transactions. As the company grows, board members are added and removed. This often occurs when the startup enters rounds of funding and, in exchange for capital, the investor requires a specified number of board seats. Board of directors meetings occur regularly to discuss and implement company-wide policies, execute objectives, approve annual budgets, and evaluate company performance. Minutes for the shareholder and board meetings are the official documentation of the agenda items discussed and decisions made during the meeting. The content of the minutes are often kept light and brief, with a list of the attendees, date, time, and place of the meeting.

Legal Contracts and Agreements

Creating a strong legal structure is crucial to protecting the startup. Formulating legal contracts and agreements ahead of time may prevent costly legal battles for the company down the line. When the startup chooses to incorporate, the legal document certifying the business is the articles of incorporation, and it provides limited liability for business debts and obligations. Another important document is the intellectual property (IP) assignment agreement, and the two types of this are the technology assignment agreement and the invention assignment agreement. The technology assignment agreement assigns the IP rights to the owners prior to the formation of the company (see the chapter “Intellectual Property: Ownership and Protection in a University Setting”). The invention assignment agreement declares that progress made toward developing the IP is owned by the company. The founders’ (or operations) agreement, mentioned previously, defines the relationship of the cofounders and establishes guidelines for resolving disputes among the founders (Faustman).

The nondisclosure agreement (NDA) is necessary to safeguard the IP and maintain the confidentiality of company ideas and property. The NDA is commonly used when discussing non-public information about the company with any outside party. The NDA specifies what information is confidential, how confidentiality should be handled, the owner of the information, and the time frame of maintaining confidentiality. As part of company governance, the CEO and founders should create a clearly written employee contract and offer letter for hiring, to set clear expectations of roles, compensation, and company policies with new employees. When attracting investors to the company, the shareholders agreement should be drawn to specify the rights of each shareholder, and when to exercise those rights. Examples of shareholder rights to define include the authority of the shareholder as a decision-maker, when shares can be transferred, the redemption of shares, and the right of first refusal. When drawing up agreements and contracts, consult with a trusted legal advisor to ensure all bases are covered (Faustman).

Other Key Regulatory Requirements

When starting a company, one of the first steps is to obtain an employer identification number (EIN) with the IRS, for tax administration. This application process can be completed online, by fax, or by mail for free. To apply, the applicant must have a valid tax identification number such as a social security number, employer identification number, or individual taxpayer identification number. Most banks require an EIN for a startup before creating a business account (“Apply for an Employer Identification Number EIN Online”).

Obtaining Expert Counsel

A tax advisor such as an experienced accountant can help manage the finances and taxes. It is important to hire an accountant who has experience in working with small businesses since some startups have complex and specific accounting needs. In addition to maintaining the finances for the company, a seasoned accountant can serve as a trusted advisor to help plan for the company's growth and assess financial risks. Referrals within one's professional network are often a solid way to find a trusted accountant.

A legal advisor is essential to counsel the startup in setting up a corporation (LLC vs. S or C corp) and in protecting the integrity of the company. Most contract-based legal advisors are lawyers who focus their careers on corporate law. They are tasked with negotiating and drafting contracts of various types for the startup, such as consultant contracts and collaboration agreements. They also ensure that the startup is operating in compliance with corporate law. Referrals within one's network are a good way to find a suitable legal advisor. A university technology transfer office (TTO), business school, or entrepreneurship/innovation center are also potential sources for contract lawyer referrals (see the chapter "Working with the University Technology Transfer Office"). Furthermore, if there is an affiliated university law school, it can provide a professional network and a referral for a corporate lawyer who suits the startup's needs. In some cases, they may also offer classes, student groups, legal clinics, or other resources ("What Is a Legal Advisor?"). An accelerator or incubator may also have a network for referrals (see the chapter "Accelerators and Incubators").

A unique benefit of working with tax advisors or legal advisors with experience in the startup area is that they can be a valuable source for referrals to other consultants or experts in related areas, such as manufacturing, sales, management, etc.

Conclusion

Establishing a startup company can be a very rewarding venture if it is started with the right expectations and guidance. Startups are often fast-paced and project-/product-focused. Teams work both closely together and independently to deliver on deadlines. In these early stages of a startup, one of the first few decisions to make is which type of corporation to register as. The three most common types, LLC, S corp, and C corp, each have their own advantages and disadvantages. A legal advisor can counsel on which type best fits the milestones and growth of the company. Another important aspect of startup formation is company governance and the careful selection of each member of the board of directors. The key decisions made in the shareholder and board of directors meetings shape the company's future for better or worse.

Practical Guides/Worksheets

Supplement 1: Agreement Questionnaire, adapted from a questionnaire provided courtesy of Fox Rothschild LLP.

COMPANY FORMATION CHECKLIST
OPERATING/PARTNERSHIP AGREEMENT QUESTIONNAIRE
Provided courtesy of Fox Rothschild LLP

I. Overview.

This document is a useful initial step in the process of company formation and should be completed prior to preparing a Founder's Agreement (aka Operating/Partnership Agreement)

II. Business.

A. Briefly describe nature of business.
B. Is it existing or start-up.
    a. If entity already existing, then:
        i. Contribution of each member to date:
        ii. Does existing equity structure fairly reflect each member's contributions to date? If not,
            1. Describe adjustments that need to be made.
C. Briefly describe the vision each member has for the future of the entity.
    a. What will each member contribute to operating and building the business.
    b. How is business going to generate money for the members? (Circle all that apply)
        i. Providing jobs for members.
        ii. Paying annual profits to members.
        iii. Building a business that can be sold at a later date.
D. What is the length of time each member plans to be involved in operating the business?
E. What is the length of time each member plans to be involved in the business as a member?
F. What are members plans for ultimate disposition of business?
    a. Sale? If so,
        i. When?
        ii. To whom?
    b. Dissolution/Wind-up?
    c. Pass on to children or other family members?
G. Any business plan? If so, please provide copy.
    a. If not,
        i. Why?
        ii. When will there be one?

III. Members.

A. Names, addresses, and telephone numbers:
B. Ownership interests of each member.
    a. Number or percentage of membership units owned by each member.
    b. Number of votes each member will have.
        i. e.g., one unit, one vote or some other formula.
C. Briefly describe what each member perceives as the key issues related to operating and building the business:

    The start of the company needs to preserve and enhance its strong, credible foundation. "A startup messed up at its foundation cannot be fixed."

    Misalignment among vision, ownership, control, and those working in the company

    Managing complexity – need for clear, direct, excellent leadership to manage technology, science and business – and making sure that all are done well. Also, making sure that alignment is achieved between founders, employees, and early investors

    Find sufficient funding or make customer-informed strategic compromises to launch an excellent product

    Finding the right balance:

    - between investment in the technology and compensation

    - balance between critical contributions, salary and equity

    - balance between execution and innovation

    First capital raise: Finding the correct initial investors – value the vision and have the resources

    First hires: Find and retain the best staff , consultants and vendors with the appropriate incentives and the correct salaries for these hires – if there is a salary-heavy company, there is no room for course correction and the salaries will be driven by that of the CEO – we should think more about equity than salary

    How to appropriately vest equity over time

    Make promises/contracts that are consistent with our resources and vision to maintain the highest quality and credible reputation

D. Will there be loans by members to company? If so,
    a. What will be the terms of the loans?
E. Membership Units to be owned by each member:
    a. Attributed price of each membership unit:

b. Amount paid or to be paid for membership units held by each member:
   i. Have all membership units been fully paid for by each member? If not,
      1. Number of membership units yet to be paid for:
      2. When will payment be made?

F. Has each member consulted with his/her attorney or accountant regarding tax consequences of their ownership of the membership units?

IV. Officers.

A. Number:
B. How selected?
C. Titles (e.g., chairman of the board, president, vice-president, secretary) and Names:
   a. Job descriptions.
   b. Who reports to whom?

V. Financing.

A. Amount of money or thing(s) of value each member is contributing to company:
B. Are contributions to be loans or equity?
C. If loans, are they to bear interest?
   a. If so, interest rate:
   b. Period of repayment.
D. Are loans to be secured?
   a. By what?
E. Repayment terms of loans:
F. Any third party financing?
   a. Source:
   b. Amount:
   c. Anticipated terms:
G. What if more money is needed to finance company?
   a. How will such decision be made?
   b. Where will additional money come from?
H. Will members be forced to participate, either by advancing more money, guarantees, or otherwise.
   a. What if members cannot agree on putting more money into company?
      i. Secured loans from parties that want to contribute?
      ii. Procedure by which parties that want to contribute are able to buy-out parties that do not want to contribute

VI. Personal Commitment of Each Member

A. Nature, if any, of non-financial contribution by each member:
B. Which members, if any, are to work in business?
   a. On what basis?
C. How are responsibilities for business to be divided?
D. How are member salaries/bonuses/commissions to be determined?
   Market rates and performance metrics – tied to performance and achieving milestones –

mostly incentive in the beginning – reasonable salary with the majority of the compensation in incentives (either salary or equity)

E. Any type of special covenants that will apply to each member while a member?
   a. e.g., non-competition, non-solicitation, ownership of any inventions?
   b. Trade secrets?
F. Any type of special covenants that shall apply after member relationship terminates?
   a. e.g., non-competition, non-solicitation.
G. Nature of activities to be restricted: (should include limits on cashing out early)
H. Length of restriction in months or years:
I. Geographic scope of restriction:
J. Shall restrictions apply if relationship is terminated by company vs. member or "with cause" vs. "without cause"?
   If the termination is with cause then what equity can be cashed should be limited and more restrictions applied. If without cause and amicable, can get equity based on vesting schedule but also might be working for a customer not competitor and should be encouraged and relationship preserved
K. Shall restrictions apply if company is no longer carrying on its business?
L. Is any member currently subject to any limitations or special covenants from past or existing relationships arising out of equity ownership or employment?

VII. Distribution of Profits

A. When are profits to be distributed and amount/percentage of same?
   a. By whom will the decisions be made?
B. Are profits to be distributed based upon ownership of membership units or some other formula?
C. What is procedure for determining timing and other distribution-related issues if member-decision-makers cannot agree?
   a. E.g., court, arbitration or mediation?
   b. Provisions in member agreement?

VIII. Decision-Making Generally

A. By whom will decisions be made?
   Day-to-day
   Monthly review and large decisions
   Quarterly – Direction-setting and review
B. Matter by which voting rights are to be handled.
   a. Simple majority vote vs. some other formula that involves a "super majority" or unanimity.
C. What shall constitute a quorum of decision-makers
   a. e.g., majority of directors and members?
   b. Supermajority?
   c. Veto right on certain matters for one or more members?
D. Describe any issues/items that shall require unanimous approval of all members (e.g., admission of new members, sale of business):

E. Of the issues/items set forth above, are there any members that would be willing to have resolved by arbitration or some other means in order to avoid a "deadlock"?
    a. If so, what are they?
F. Of the issues/items that require unanimous approval, are there any you would be willing to resolve by a super majority (e.g. approval by 2/3 or 3/4 of the members) in order to avoid a deadlock?
G. Of the issues/items about which all members must agree, which of the following options, if any, do you favor for resolving deadlocks:
    a. Arbitration.
    b. Winding up of business.
    c. Sale of business with right of first refusal by each member.
    d. Majority buys out minority.
    e. Some combination of the above.

IX. "Getting Out" of the Company

A. Which of the following options do the members prefer if one or more wishes to "get out":
    a. Winding-up/dissolving the business.
    b. Selling the business with rights of first refusal for each non-departing member.
    c. Remaining members buy out departing member.
    d. Find a third-party buyer for membership units of departing member.
    e. Some combination of the above.
B. In the event of a buy-out,
    a. How is purchase price to be determined?
    b. How will the purchase price be paid?
C. Any restrictions on "getting out"?
    a. Ability to "get out" within "X" years of incorporation.
    b. Ability to "get out" after specified period of years.
D. Any "special" rules for certain members?
    a. Majority member.
    b. Next generation.
    c. Older generation.
    d. Venture capital or "angel" investor.

X. "Forcing out" a Member.

A. Under what circumstances may a member be forced-out, or in the case of a member-employee terminated?
    a. With or without cause?
        i. What constitutes "with cause"?
        ii. What about involuntary circumstances (e.g., death or disability)?
B. By whom is "force-out" decision made?
    a. By what procedure (e.g. voting)?
    b. Board of Directors.
    c. Majority member.
C. May a terminated member be forced to sell out or can he/she insist on being bought out?

a. Terms of sell-out/buy-out.
b. How is purchase price determined?
c. What are payment terms?
d. Shall there be penalties for being terminated with cause? If so,
    i. What are they?

D. How does termination of member affect any non-competition and non-solicitation obligations he/she may have?
    a. Is answer the same if termination is "with cause" vs. "without cause"?
E. What effect will "force-out" have on the company?
    a. Winding-up/dissolving the business.
    b. Selling the business with rights of first refusal for each non-departing member.
    c. Non-departing members buy-out departing member.
    d. Find a third-party buyer for departing member's membership units.
    e. Some combination of the above.
F. In the event parting member is to be bought out:
    a. How is purchase price to be determined?
    b. What are the terms/conditions of payment?
G. Any restrictions on "force-out"?
    a. "Force-out" not permitted within "X" years of incorporation.
    b. "Force-out" not permitted after "X" years of association with company.
H. Any special rules for certain members?
    a. e.g., "Founding" members.

XI. Majority/Minority Rights for "Selling Out".

A. Should each member have a right of first refusal in the event of a proposed sale of a company?
B. Can the majority members force the minority members to sell to them?
    a. If so, under what conditions, terms?
C. Should the majority be able to force a sale of the entire company?
    a. If so, under what terms?
    b. Would such proposed sale include a right or first refusal by the minority?
    c. Would such proposed sale include a provision whereby the minority would be forced to sell out on the same terms as the majority?
    d. Should the minority be able to force any buyer who is purchasing a majority interest to purchase the minority interest at the same time and on the same terms?

XII. Member in Default.

A. In the event a member defaults on his/her obligations under the members' agreement,
    a. Should such default affect his/her right to receive a salary/bonus/commission.
    b. Should it affect his/her votes?
    c. Should it affect his/her right to participate in election or appointment of officers and/or directors?
B. Should a "defaulting" member be forced-out from the company? If so,
    a. On what terms?

i. Should these terms be more onerous than those that apply to a departing member who is not in default?

C. What effect should forced buy-out have on the company?
   a. Winding-up/dissolving the company.
   b. Selling the company with rights of first refusal by each non-departing member.
   c. Non-defaulting members to (buy-out) defaulting member.
   d. Find a third-party-buyer for defaulting member's membership units.
   e. Some combination of the above.
D. If non-defaulting members are to buy-out defaulting member then,
   a. How will buy-out price be determined?
   b. What will be the payment terms?
   c. Should defaulting member receive a "discounted" price because of his/her default?

<u>XIII. Disability of a Member.</u>

A. What to do if a member becomes sick or disabled for more than a specified period of time.
B. How is the term "disability" to be defined?
C. During the term of the disability, what will be the effect upon disabled member's
   a. Salary.
   b. Profit membership unit.
   c. Membership unit ownership.
D. How long should other members permit disability to persist before the disabled member is forced out/bought out?
E. What effect does long term disability insurance payments have on considerations in B, C, and D immediately preceding and G below?
F. Options for force-out/buy-out include:
   a. Winding-up/dissolving the business.
   b. Selling the company with rights of first refusal for each non-disabled member.
   c. Non-disabled members buy-out disabled member.
      i. Equal division of disabled member's membership units among non-disabled members.
   d. Sale of disabled members' membership units to third-party-buyer.
   e. Some combination of the above.
G. How is purchase price of disabled members membership units to be determined.
   a. What will be the payment terms?

<u>XIV. Death of a Member.</u>

A. Does death trigger automatic buy-out of deceased member's membership units by company/surviving members?
   a. If not, can an estate of deceased member force the company to buy out deceased member's membership units?
   b. If death does not trigger an automatic buy-out, can membership units be left to spouse, children or others upon deceased member's death?

B. Should any of the following options be triggered upon the death of one or more members:
   a. Winding up/dissolving the business.
   b. Selling the business with rights of first refusal for each surviving member?
   c. Finding a third-party buyer for membership units of deceased member(s).
   d. Some combination of the above?
C. How are deceased member's membership units to be valued for buy-out purposes (i.e. how is purchase price to be calculated)?
   a. What are the payment terms?

XV. Loss of Control.

A. What if a member loses control of his/her membership units through bankruptcy, divorce or some other event?
B. How should such loss of control affect member's:
   a. Profit-sharing rights?
   b. Voting rights?
   c. Right to participate in election or appointment of officers and directors?
C. Does loss of control trigger a buy-out of member's membership units? If so,
   a. On what terms?
      i. Should these terms be more onerous than those that apply when a member is forced out or leaves company when in control of his/her membership units?
D. Is loss of control an event of either "default" or otherwise that would trigger any of the following scenarios:
   a. Winding-up/dissolving the company?
   b. Selling the company with right of first refusal by each "non-defaulting" member?
   c. Non-defaulting members buying-out defaulting member?
   d. Finding a third-party buyer for defaulting member's membership units?
   e. Some combination of the above.
E. If loss of control is to trigger a buy-out by other members then,
   a. How is the purchase price to be determined?
   b. What are the payment terms?

XVI. Miscellaneous.

A. Company's books and records.
   a. Equal access by all members?
      i. At all reasonable times? or
      ii. Some restriction?
         1. e.g. only during normal business hours and/or with some type of advanced notice?
         2. Limitation on types of books and records to be made available in specific circumstances?
B. Confidentiality obligations.
   a. Generally, member relationship to be kept confidential to the extent practicable.
   b. Applicability after disposition of membership units by individual member.

c. Exception: sale of business – dissemination of only "approved" materials after notice and consent by all/majority of members?

C. <u>Use of Insurance to Fund Buy-out of Deceased/Disabled Member's Membership units.</u>

a. Is buy-out to be funded with insurance?
   i. If so, how much insurance is to be purchased?
      1. How is insurance to be updated?
b. Who is to be the owner of the insurance policy?
   i. The company?
   ii. The individual members?
c. Who is to pay the insurance premiums?
   i. The company?
   ii. The individual members?
d. What if a member is not insurable?
   i. Or is insurable, but not at "preferred" or "standard" rates?
      1. Who should pay the cost of the premium in excess of "preferred" or "standard" rates?
         a. The company?
         b. The affected member?
e. What if the cost of insurance or a particular policy is "too expensive"?
f. What if the insurance claim is denied?
g. What if the insurance money is insufficient to pay the entire cost of the buy-out price?
h. What if there is "excess" insurance money after the buy-out price is paid?
i. If no insurance, members may wish to pay buy-out price over time.
   i. What should the "time" payment terms be?
j. Does each member prefer to assume responsibility for maintaining his/her own insurance with other members named as beneficiaries so there are funds to buy out membership units from deceased member's estate?; or do they prefer a situation where company purchases the insurance and uses the insurance proceeds to buy-out deceased member's membership units from his/her estate?

Resources

1. Information about LLC, S corp, and C corp from the IRS website: https://www.irs.gov/businesses/small-businesses-self-employed/s-corporations.
2. Differentiating the advantages and disadvantages of LLC, S corp, and C corp: https://www.incorporate.com/s_corporation.html.
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